

CSR Spending and Financial Performance: A Cross-Sectoral Panel Study, An Empirical Analysis of Selected Indian Corporations

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Abstract: This study has considered a set of eight listed firms in three different stock exchanges (Banking, Energy and Pharmaceuticals) for a five year period from 2020 to 2025, creating 40 observations of firm years to study the relationship between firm financial performance and CSR expenditure. Using compulsory CSR disclosures under Section 135 of the Companies Act, 2013, descriptive statistics, Pearson and Spearman correlation analysis, Ordinary Least Squares (OLS) and log-log regression models, one-way ANOVA, Kruskal-Wallis non-parametric testing and CAGR estimation are used in this paper to interrogate the profit-CSR nexus across sectors. The net profit and absolute CSR expenditure are found to be strongly related and statistically significant with the Pearson correlation coefficient of 0.9584, Spearman rho of 0.9859, and p value < 0.001, which means that 97.36% of the variance in CSR expenditure can be explained by the log-log regression model. The mean CSR expenditure as a proportion of net profit for all the firms is 2.03% (SD = 0.41%) which is slightly above the statutory requirement of 2%. A sector-wise analysis shows that there are large differences in the intensity of CSR activity, the Energy sector has the highest CV (21–53%), and the Pharma sector has the greatest stability in compliance (CV < 3%). Results of Kruskal-Wallis test show statistically significant differences between the sectors in relation to CSR intensity ($H = 6.484$, $p = 0.039$). The implications of these findings for policymakers, investors and ESG analysts to understand the impact of India's mandatory CSR framework on the behaviour of corporate social investment are significant.

Keywords: Corporate Social Responsibility, CSR compliance, net profit, Indian corporates, panel data, quantitative analysis, ESG.

1. INTRODUCTION

CSR has become a key dimension of corporate governance, and deserves systematic academic attention in emerging market economies. India is unique for making CSR expenditure compulsory through laws, whereas other countries are still considering it. India is the first country which implemented minimum CSR spending as part of the law. Companies with a net worth of INR 500 crore or more, turnover of INR 1,000 crore or more and net profit of INR 5 crore or more for the last three financial years are required to allocate a minimum of 2% of their average net profit of the past three financial years to any of the activities prescribed in section 135 of the Companies Act, 2013. This regulatory setting is quasi-experimental in nature for the purpose of investigating the link between profitability and social expenditure at the firm level. Empirical evidence on the financial performance-CSR nexus is fragmented as there is no uniform literature across the globe that has done extensive research in this area. Existing research has been mainly concerned with the voluntary disclosure of CSR in developed markets, while under-researched has been compliance and expenditure patterns in developed markets when CSR is required by law. The present study has filled this gap by analyzing quantitative CSR data and profitability data of 8 leading Indian organizations in Banking, Energy and Pharmaceuticals sector. This study is driven by three interrelated research questions: Three related research questions motivate this study: First, do firm-level net profit and absolute CSR expenditure show a positive statistical relationship? Secondly, are the CSR expenditure per net profit percentage of the firms at or above 2% level as prescribed by the Companies Act 2013? Third, do there exist over time significant inter-sectoral differences in the intensity of CSR activities? These questions are part of an emerging body of research on mandatory CSR, ESG investing, and sustainable corporate governance in emerging markets.

2. LITERATURE REVIEW

2.1 Global Evidence on the Financial Performance-CSR Relationship

The connection between corporate financial performance (CFP) and CSR is one of the most widely-researched issues in management studies. Orlitzky et al. (2003) conducted a meta-analysis of 52 studies and concluded that CSR and CFP were bidirectional related, with companies that are more committed to social responsibility generally performing better than similar companies. In the same vein, Margolis and Walsh (2003) examined 127 studies and found that overall, there is a positive, but weak, relationship between CSR and financial results. A demand-supply model was proposed by McWilliams and Siegel (2000) under which firms can participate in CSR in order to distinguish their products as a means to create value. One recent meta-analysis by Friede et al. (2015) that analyzed more than 2,200 single studies found that about 90% of the studies show a non-negative correlation between ESG measures and financial performance. This basic evidence justifies the CSR spending as an investment to improve reputation, minimize regulatory risk and build stakeholder relationships (Carroll & Shabana, 2010, Porter & Kramer, 2006).

2.2 CSR in the Indian Context

The mandatory CSR provisions of the Companies Act, 2013 are a positive move from the voluntary CSR practices followed around the world and have inspired empirical studies. In the early years after the CSR Act came into force in India, Kumar et al. (2015) noted that CSR was treated as a compliance exercise instead of a strategic initiative by the Indian companies. This was confirmed by later studies by Arora and Dharwadkar (2011) and Sehrawat et al. (2019) that larger and more profitable Indian companies invest more absolute CSR, which aligns with the slack resources hypothesis put forward by Waddock and Graves (1997).

Patterned analyses of the sectors indicate differential patterns. The public sector undertakings (PSUs) in the energy sector generally exceed the statutory CSR minimums, which can be attributed to government directives and reputational considerations (Mukherjee and Bhattacharya, 2021). The compliance behaviour of pharmaceutical companies is different, however, because they have narrow operating margins and the R&D investment is more focused, they tend to behave more tightly around the statutory minimum of 2%. Banking sector firms have high absolute profits, but low CSR intensities in proportion to their profits.

2.3 Theoretical Framework

Three theory-based approaches are used as a basis for this study. Stakeholder Theory (Freeman, 1984) has been suggested that companies have to meet a wide range of stakeholders other than shareholders, and that firms will invest in CSR in relation to their economic power. Slack Resources Theory (1981, Bourgeois; 1997, Waddock & Graves) posits that those companies that have more resources than they need, are more apt to undertake discretionary CSR activities. According to legitimacy theory (Suchman, 1995), the degree of pressure is higher for companies in societally sensitive industries (e.g., energy, banking) to prove their social responsibility in order to secure their societal license to operate. Combined, these models forecast a positive financial performance-CSR expenditure link, mediated by the sector. Together, these models imply a profit-driven and positive financial performance-CSR expenditure link which is moderated by the sector.

3. RESEARCH OBJECTIVES

- (i) To compute and analyze descriptive statistics of CSR spending and net profit across eight Indian companies from 2020 to 2025
- (ii) To examine the correlation between net profit and CSR expenditure using parametric and non-parametric measures
- (iii) To model the relationship between profitability and CSR spending through OLS and log-log regression
- (iv) To test for significant inter-sectoral differences in CSR intensity using ANOVA and Kruskal-Wallis tests
- (v) To assess year-wise temporal trends in CSR spending and compliance intensity.

3.1 Research Hypotheses

- H1: There is a statistically significant positive relationship between net profit and CSR spending among Indian listed companies.
- H2: The mean CSR spending as a percentage of net profit across sampled firms meets or exceeds the mandated 2% threshold.
- H3: There are statistically significant differences in CSR intensity (CSR% of profit) across sectors.

4. DATA AND METHODOLOGY

4.1 Sample and Data Collection

The data set includes 40 firm-year observations from eight public listed companies across different industries, including Banking, Energy (including Oil) and Pharmaceuticals, for 5 consecutive fiscal years (2020-2025). The eight companies were chosen for both sector representation and size, as well as for having had available and consistent CSR data and for being listed in the major stock indices. Companies' Annual Reports along with their standalone CSR Reports submitted to the Ministry of Corporate Affairs were used as the source of all data. Unless otherwise stated, all financials are provided in Indian Rupees (INR) Crores.

Table 1 shows the descriptive data of the main study variables. In this multi-sector study, the high coefficient of variance (CV) found for Net Profit (128.58%) is an expected finding as the size of the two firms, HDFC Bank and the Pharma companies, vary significantly. The linear relationship between profitability and statutory CSR obligation gives rise to a high coefficient of variation (CV = 117.60%) of CSR spending.

Table 1: Descriptive Statistics of Key Variables (N = 40)

Variable	N	Mean	SD	Min	Max	CV%
Net Profit (INR Cr)	40	12,748.02	16,390.99	1,356.00	60,800.00	128.58
CSR Spending (INR Cr)	40	238.68	280.71	28.00	1,068.03	117.60
CSR % of Net Profit	40	2.03	0.41	1.06	3.83	20.28

Note: All monetary values in INR Crores. CSR % of Profit corrected for data entry inconsistencies (HDFC Bank values originally expressed as proportions were converted to percentage format before analysis. CV = Coefficient of Variation.

4.2 Analytical Methods

The study is a multi-method quantitative approach. The Pearson's product-moment correlation coefficient is used to determine the linear relationship between the net profit and CSR spending, and the Spearman's rank correlation is used as a good non-parametric alternative to Pearson's correlation coefficient. Two types of regression are estimated to measure the size of the profit-CSR relationship: simple OLS regression ($\text{CSR Spending} = \alpha + \beta \text{ Net Profit} + \epsilon$) and log-log regression ($\ln[\text{CSR}] = \alpha + \beta \ln[\text{Profit}] + \epsilon$). Of particular use to make the log-log specification here, because it provides an elasticity interpretation: the beta coefficient in the log-log model equals the percentage change in CSR spending per 1% change in net profit.

A one-way ANOVA (parametric) and the Kruskal-Wallis test (non-parametric) are used to test the differences in CSR intensity (CSR% of Net Profit) between the sectors, with the latter test being more appropriate as the size of each sector subsample is small and normality may not be met. To measure the trajectory, the amount of CSR expenditures per company is calculated using the Compound Annual Growth Rate (CAGR). With the goal of identifying secular trends in compliance intensity, a linear time-trend regression of the mean CSR% on calendar year is also estimated. All statistical analyses were done in Python (SciPy 1.11, Pandas 2.0, NumPy 1.25).

5. RESULTS

5.1 Sector-Wise and Company-Wise Analysis

The table provides sector aggregated descriptive statistics. The banking sector represented by HDFC bank has the highest absolute value for CSR spending as well as profits. It shows mean INR 840.91 crore as the amount spent on CSR activities while achieving a record net profit of INR 47,141.60 crore. Despite these high values of spendings, its CSR intensity score of only 1.82 percent which is lower than the stipulated level of 2%.

The second most intense industry is the energy industry whose mean intensity score stands out among other industries at 2.17 percent but with the largest SD (0.82%) and Coefficient Variation (CV=37.8%). This variation may be due to fluctuating nature of commodities that are traded by this industry. In addition, there seems to exist a great uniformity in CSR spending in pharmaceutical companies where the mean CSR intensity is 2.01 percent but with standard deviation being just 0.05 percent. This indicates mechanical compliance of the mandatory CSR spends required under statute.

Table 2: Sector-Wise Descriptive Statistics of CSR Variables

Sector	n	Avg. Net Profit	Avg. CSR Spend	Avg. CSR%	SD CSR%	Min CSR%	Max CSR%
Banking	5	47,141.60	840.91	1.82	0.17	1.55	1.99
Energy (incl. Oil)	10	20,452.69	394.38	2.17	0.82	1.06	3.83
Pharma	25	2,787.44	55.96	2.01	0.05	1.91	2.10
Overall	40	12,748.02	238.68	2.03	0.41	1.06	3.83

Note: Energy sector includes both NTPC Limited (Energy) and Indian Oil Corporation (Energy & Oil Sector), combined for analytical purposes. Banking sector represented solely by HDFC Bank.

The table presents the company level analyses such as Coefficient of variation (CV) of their CSR % & CAGR of absolute CSR spending. It can be seen that Indian Oil Corporation has the most volatile CSR Intensity (with CV = 53.55%). This volatility is attributed to the drastic changes in net profit due to fluctuation in global crude oil prices. NTPC is next with a CV=21.48%. Amongst Pharma companies, Dr.Reddy's has shown the highest growth rate (CAGR=28.78%) in their CSR spending. Such high growth in their CSR spending could be explained by the fast growing profits that they earned after launching several generic drugs successfully into export markets. On the contrary, Sun Pharma records negative CAGR=-11.50% on their CSR spending which coincides with their declining net-profit during this period.

Table 3: Company-Wise CSR Performance Analysis (2020–2025)

Company	Sector	Avg. Net Profit (Cr)	Avg. CSR Spend (Cr)	Avg. CSR%	CV% (CSR%)	CAGR CSR Spend
Aurobindo Pharma	Pharma	2,928.20	58.40	1.99	0.76%	0.43%
Cipla	Pharma	2,490.80	49.80	2.00	2.27%	17.95%
Divi's Labs	Pharma	1,964.80	39.60	2.01	1.63%	4.97%
Dr. Reddy's	Pharma	3,256.20	66.60	2.05	2.99%	28.78%
HDFC Bank	Banking	47,141.60	840.91	1.82	9.49%	13.89%
Indian Oil Corp.	Energy & Oil	23,083.37	395.29	2.08	53.55%	1.88%
NTPC Limited	Energy	17,822.01	393.48	2.27	21.48%	1.85%
Sun Pharma	Pharma	3,297.20	65.40	1.98	1.94%	-11.50%

Note: CAGR calculated on absolute CSR spending over available years. CV = Coefficient of Variation of annual CSR % of profit.

5.2 Correlation and Regression Analysis

The findings of correlation and regression analyses for H1 are reported in table 4. The Pearson correlation coefficient of the net profit and CSR spending is $r = 0.9584$ ($p < 0.001$) and shows that there is a very strong positive linear association between these two variables. This relationship is also verified under non-parametric conditions, using the Spearman rank correlation ($\rho = 0.9859$, $p < 0.001$), and is thus robust for all firm sizes in the sample.

The OLS regression model ($\text{CSR Spend} = 29.45 + 0.0164 \text{ Net Profit}$) has an R-squared of 0.9185, which means that net profit accounts for about 91.85% of the variation in absolute CSR spending. The regression coefficient of 0.0164 crore per INR 1 crore of net profit suggests that the CSR spending of listed companies is close to the 2% regulatory mandate. The log-log specification obtains an R-squared of 0.9736 and an elasticity coefficient of 0.9607, indicating that a 1% rise

in net profit corresponds to an almost 1% rise in CSR spending, which is near unity and consistent with a mechanism of CSR that is driven by profits. The support of H1 is very strong.

Table 4: Correlation and Regression Results (Dependent Variable: CSR Spending)

Model	Beta Coefficient	Intercept	R ²	p-value
OLS Linear Regression	0.0164	29.45	0.9185	< 0.001***
Log-Log Regression	0.9607	-3.5742	0.9736	< 0.001***
Pearson r (NetProfit vs CSRSpending)	r = 0.9584	-	-	< 0.001***
Spearman rho (NetProfit vs CSRSpending)	rho = 0.9859	-	-	< 0.001***

Note: *** p < 0.001. OLS Model: CSR Spending = 29.45 + 0.0164 * Net Profit. Log-Log Model: ln(CSR) = -3.5742 + 0.9607 * ln(Net Profit). Both models estimated with n = 40.

5.3 Statutory Compliance: CSR% of Profit

The mean CSR% of net profit for all 40 firm-year observations is 2.03% (SD 0.41%) which is slightly above the 2% threshold set by the statute. The median is 1.995%, and 62.5% of all firm-year observations have CSR spending of 2% or higher. Compliance, however, is not universal as minimum observed CSR intensity is 1.06% (Indian Oil Corporation, 2023-24) which is significantly lower than the statutory minimum. The Pharma sub-sector has the highest number of observations within the tight band of 1.91–2.10% of observations in compliance with all 25 observations. Adherence to the statutory compliance rate across sectors is around 60–65% which is a good level of compliance but not yet satisfactory. Table 5 shows the evolution of CSR metrics over the years in the pooled sample. Mean CSR% ranges from a low of 1.88% in 2023 to a high of 2.17% in 2024, without exhibiting a statistically discernible secular trend (Beta = -0.0046, p = 0.930). This trend is further evidence that the 2% legal obligation becomes a minimum and also an implied target for majority of companies, especially in the Pharma industry.

Table 5: Year-Wise Pooled CSR Metrics (2020–2024)

Year	Mean CSR%	Min CSR%	Max CSR%	Avg CSR Spend (Cr)	n
2020	2.16	1.99	2.10	98.20	8
2021	1.93	1.97	3.04	119.24	8
2022	1.99	1.97	2.26	126.39	8
2023	1.88	1.97	2.35	126.44	8
2024	2.17	1.06	3.83	185.21	8

5.4 Inter-Sectoral Differences in CSR Intensity

One-way ANOVA and Kruskal-Wallis tests were performed to test H3: There will be differences in the CSR% of profit between the three sector groups. The outcome of the inferential tests are shown in Table 6. A non-significant result is obtained for the parametric ANOVA (F = 1.326, p = 0.278) which may be due to the non-normal distributions and unequal sector subsample sizes (Banking n = 5, Energy n = 10, Pharma n = 25). The Kruskal-Wallis non-parametric test, which does not assume normality and is not sensitive to unequal group sizes, gives H = 6.484 (p = 0.039) and so shows that there are statistically significant differences in CSR intensity distribution between the different sectors at the conventional alpha = 0.05 level. Thus, the non-parametric criterion of support is used to support the claim of H3 at the 5% level of significance. The inter-sector pattern is significant for the independent samples t-test comparing Energy versus Pharma CSR%, but individual pairwise comparisons may not be.

Table 6: Inferential Statistics — Inter-Sectoral Differences and Time Trend Tests

Test	Statistic	p-value	Interpretation
One-Way ANOVA (CSR% across Sectors)	F = 1.326	0.278	Not Significant
Kruskal-Wallis (non-parametric)	H = 6.484	0.039*	Significant (p < 0.05)
t-Test: Energy vs Pharma CSR%	t = 1.035	0.308	Not Significant
Time Trend (OLS, Year vs Mean CSR%)	Beta = -0.0046	0.930	No Trend

Note: * p < 0.05. ANOVA test conducted with three groups: Banking (n=5), Energy (n=10), Pharma (n=25). Kruskal-Wallis non-parametric alternative to ANOVA.

6. ANALYSIS AND INTERPRETATION

The findings of this study are empirical and all these findings collectively suggest that Section 135 mandate in listed companies in India has a model of CSR expenditure based on profit proportion. There are a few points of interest which need to be discussed in detail.

The log-log regression found a near unity elasticity estimate of 0.9607 which is theoretically significant. It argues that CSR spending grows in a nearly perfectly linear fashion with profitability, as in compliance-driven CSR, firms plan to spend around 2% of net profit on CSR without making the type of strategic overinvestment that occurs in voluntary CSR settings (Kitzmueller & Shimshack, 2012). This is very different from studies in the United States and Europe, which tend to find that companies often invest in CSR projects that have nothing to do with short-term profits, but are undertaken for reputational or stakeholder signalling purposes (Barnett & Salomon, 2012). The legal minimum seems to have set an anchor for spending in India, which helps disciplines underspending and strategic overinvestment.

The various sectoral patterns can highlight the multi-faceted nature of the economic and institutional environment in which CSR requirements are met. The variation in profitability in the commodity prices has translated to high variability (CV = 21–54%) in the Energy sector. The CSR budgets of the two companies get fat when they make good profits and shrink when they make less. When profit is good, NTPC and Indian Oil's CSR budgets grow mechanistically according to the percentage-of-profit formula, and when they don't, they get smaller. This adds a pro-cyclical element to CSR funding in profit volatile industries that can lead to less consistency in the delivery of social programmes. A consideration for policymakers may be to transition to three year rolling average CSR requirements, which is part of the Act, but not consistently applied.

Near machine-like compliance (CV < 3% for all 5 companies) in the Pharmaceutical industry marks a cognitive and financial anchor for CSR budgeting in this industry. This is similar to the anchoring heuristic used in a regulatory context which Kahneman and Tversky (1979) refer to, where a numerical target is set externally, the decision-maker would tend to move towards it. The take-away is that mandates that are purely percentage-based can backfire by not encouraging firms to go beyond the minimum required if their financial results are better, which is important for current policy discussions on increasing India's statutory minimum CSR requirement.

The statutory minimum of CSR intensity at 2% is below which the HDFC Bank is. The intensity is 1.82% below the statutory minimum of 2%. The highest absolute amount for CSR spending is observed in the sample (mean INR 840.91 crore), but due to the enormous profits earned by the bank, the percentage bound is equivalent to a very high absolute bound. The regulatory attention on banking sector CSR compliance has picked up after the Companies (CSR Policy) Rules, 2020, which gave a boost to CSR compliance during the merger of legacy HDFC Ltd. data in the net profit denominators of HDFC Bank for the period from 2020 to 2022.

Dr. Reddy's astounding CSR CAGR (28.78%) mirrors the company's aggressive growth in its profit, driven by exports of its generic drugs and the launch of its bio-similars, which translates to proportionately higher CSR obligations. If it continues, in the next five years Dr. Reddy's will be in the top 1% of overall CSR contributors in India. On the other hand, the negative CSR CAGR (-11.50%) for Sun Pharma reflects its problems of profitability due to the US FDA regulatory concerns and high generic drug price erosion in export markets, suggesting that the mandatory framework has

cyclical sensitivity which can have adverse effects on companies operating in competitive medicine businesses with regulatory requirements from US FDA.

7. CONCLUSION

This paper offers quantitative evidence of the effectiveness of CSR in achieving a statistically significant pattern of expenditure on CSR with a linear profile to listed companies in India under the mandatory CSR provision of the Companies Act, 2013, in compliance with the provisions of the Act. There are three main findings. First, the remarkable correlation between net profit and CSR spending (Pearson $r = 0.9584$, log-log $R^2 = 0.9736$) is evident that, in sectors as well as sizes, CSR spending is largely determined by financial capacity, as reflected in the statutory formula. Second, the average CSR intensity of 2.03% indicates widespread, but imperfect, CSR compliance with the 2% obligation (the Pharma sector is near mechanical while the Energy sector is more volatile with profits). Third, the inter-sectoral differences in CSR intensity shown to be statistically significant: Kruskal-Wallis $H = 6.484$, $p = 0.039$, suggest that sector membership, which is influenced by varying business cycles, regulatory environments, and institutional pressures on the firms, has a meaningful effect on the pattern and consistency of CSR compliance.

Theoretically, the results come closest to the predictions of Slack Resources Theory: when firms have more financial slack, they make proportionately more social expenditures, but the amount of social expenditure is not inherently desirable, it is mandated by law. This is unique to the Indian context and calls into question whether a similar social impact can be achieved with a compulsory approach or with a genuinely stakeholder-oriented approach (Bhatt & Bhatt, 2016, Birky et al., 2016).

The study has some limitations: small sample of eight firms, uneven distribution of firms across sectors (Pharma over-represented) and use only two financial variables (net profit and CSR expenditure) to avoid examining the allocation of the CSR funds (education, health, environment, rural development). Further studies are needed to increase the sample size to include mid-cap firms, utilize project-level CSR outcome data, and use panel data econometric techniques such as fixed-effects and random-effects models to account for unobserved firm heterogeneity. Research on the long-run value of firms based on CSR composition (thematic allocation) would also be of great value.

The near-mechanical compliance behaviour witnessed in the operating companies, in particular in the Pharma industry, suggests that the existing CSR percentage of profit could be a limit as well as a floor for CSR ambition from policymakers. The introduction of tiered CSR targets and/or tax incentives for CSR spending beyond the minimum requirement of the mandatory CSR framework will expand the potential for voluntary investment beyond the compliance requirements, thus further strengthening India's unique and world-first CSR framework.

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